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SME Confidence Tracker:

Construction Spotlight

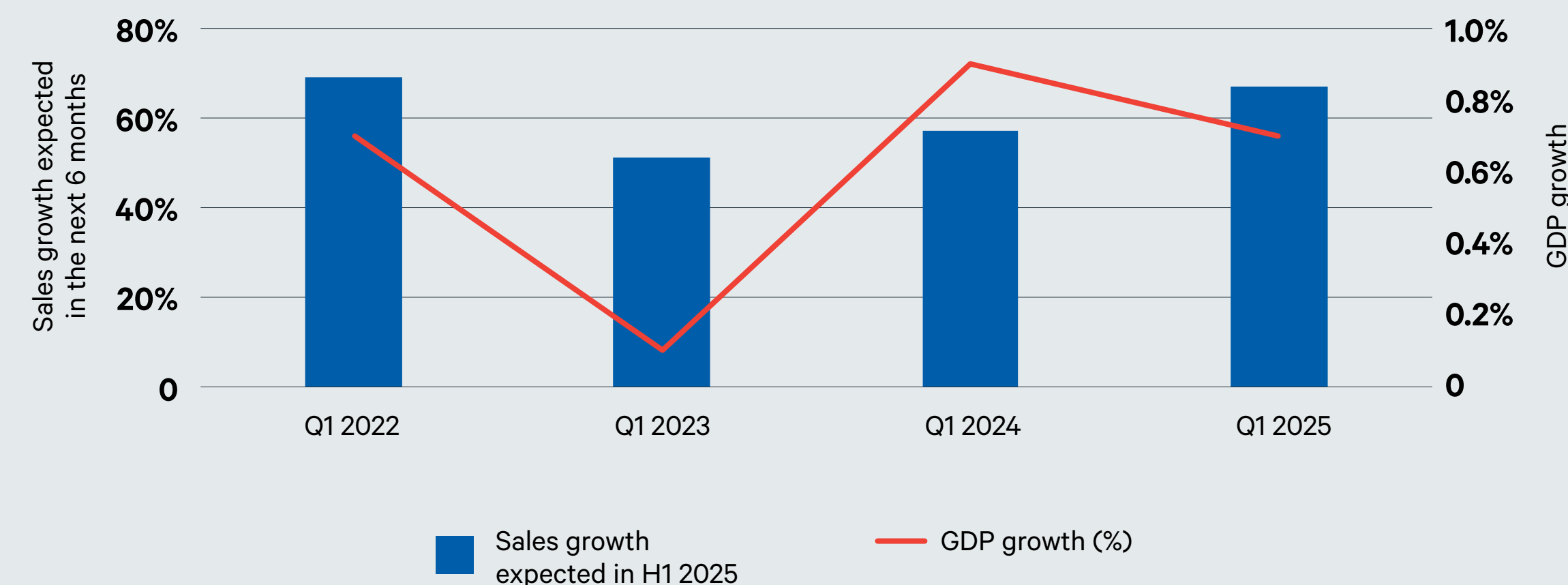
UK construction SMEs seek level playing field to capitalise on Government's growth agenda

- **Construction SMEs upbeat about growth prospects but unconvinced that the Government's Industrial Strategy will benefit them**
- **Firms face difficulty accessing external finance to expand and operate day-to-day**
- **Sector insolvencies rise as bad debt and rising costs take their toll**

Despite difficult trading conditions, data from Bibby Financial Services' (BFS) Q1 SME Confidence Tracker reveals that construction businesses are confident about their prospects, with 67 percent expecting sales to increase - up from 57 percent the same time last year. This confidence is close to reaching its highest level of 69 percent, recorded in 2022, when the sector saw a surge in activity and UK GDP effectively returned to pre-pandemic levels of output.

But the same small firms remain sceptical about the Government's focus on supporting them in the current uncertain economic climate.

Sales expectations and GDP growth are both back to the same level as Q1 2022



Government’s Industrial Strategy risks leaving SMEs behind

The Government has set out an ambitious Industrial Strategy. However, 60 percent of small construction firms believe the plans to invest £100 billion in capital commitments and to build 1.5 million homes over the next five years will disproportionately benefit large main contractors.

This may be a reason why four in ten (40%) construction firms say they’re not confident in the UK Government's ability to support them in the face of continued turbulent conditions. Persistently high labour and material costs, and labour shortages continue to plague smaller firms more than their larger counterparts who may be better placed to manage economic volatility.

In fact, construction sector SMEs demonstrate the highest levels of scepticism of all sectors surveyed, compared to manufacturing (34%), services (38%), and transport (38%).

Challenges for construction sector SMEs



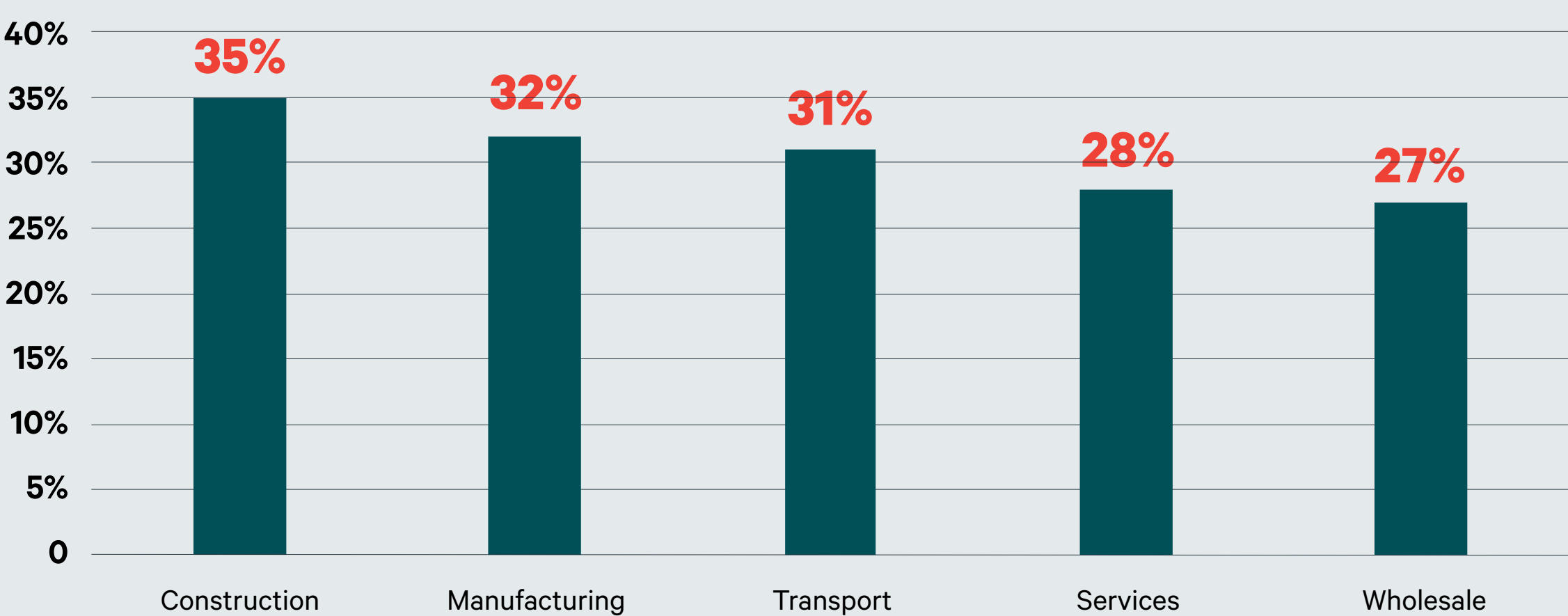
Rising costs and bad debt squeeze small construction firms

Construction firms continue to grapple with inflation and high costs, with the cost for raw materials remaining elevated, particularly concrete and timber. BFS’ data highlights that 72 percent of small construction firms find rising material costs are straining profitability and delivering a negative multiplier effect on cashflow.

Moreover, nearly a third (29%) of construction firms report they don’t have sufficient cashflow to operate effectively on a day-to-day basis, higher than businesses surveyed in transport (6%), wholesale (12%) and manufacturing (24%) industries.

Rising cost challenges and tight cashflow have created the perfect storm for construction firms, who are experiencing higher levels of bad debt than other sectors and rising insolvencies, as a result. BFS’s data shows SME construction firms have had to write off an average of over £23,000 in bad debt in the past year. And according to The Building Cost Information Service’s (BCIS) latest figures, nearly a fifth (18.1%) of all insolvencies in England and Wales in March were construction firms, highlighting the damaging effects for the sector.

Construction SMEs have suffered most from bad debt in the past year

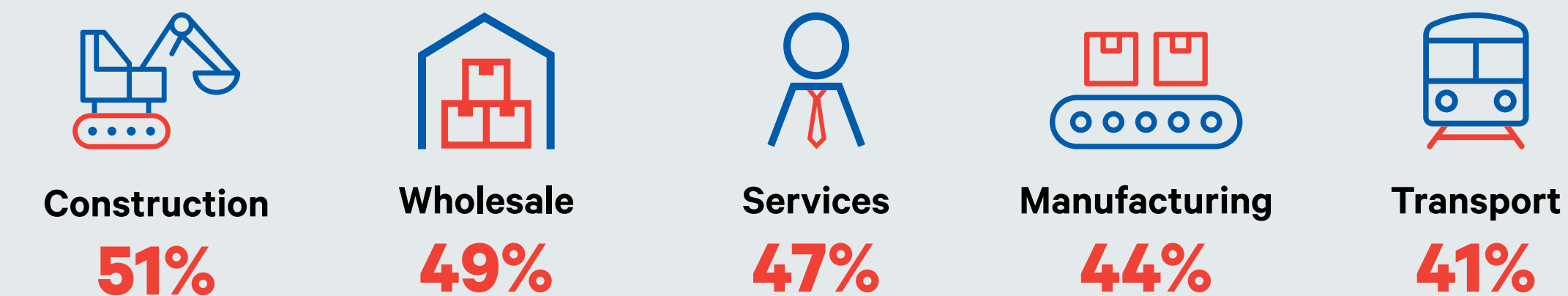


Access to finance slips for construction sector

As costs rise, many smaller construction firms are still struggling to secure the finance they need to manage day-to-day operations or to grow. The Government has identified improving access to finance for small firms as a key priority for their Industrial Strategy, to help these businesses to thrive and grow.

But more than half (51%) of construction firms agree it is more difficult to access external finance now compared to six months ago – the highest of all sectors surveyed. Data highlights the primary reason for construction firms using external finance is expansion or investment (39%), closely followed by their need to fund day-to-day operations (32%).

Difficulty accessing external finance



Complex contracts undermine SME confidence in payment negotiations

BFS's data shows that the smallest firms – which are more likely to be subcontractors – are at a disadvantage when it comes to negotiating favourable contracts. This often results in poor payment terms, which can leave companies facing bad debt and unexpected costs. Nearly half (48%) of SME construction firms find contracts difficult to understand, notably rising to 56 percent for the smallest firms (less than nine employees).

And while 58 percent of small construction firms (10-50 employees) feel they can influence and change the terms of contracts with main contractors, this declines by over half to just 26 percent for the smallest firms (1-9 employees). In addition, over a third of small construction firms (10-50 employees) feel they must accept contracts as they are, or they will lose business. This figure increases to nearly 6 in 10 (58%) for the smallest firms (1-9 employees).

A view from BFS



Derek Ryan
UK Managing Director
Bibby Financial Services

“The Government’s commitment to invest in the construction sector may well explain increasing optimism amongst business leaders, however it’s critical that small firms are not left on the sidelines. Faced with inflation, cost pressures and shrinking access to external finance, SME gross margins are being eroded. These conditions are making it even harder for SMEs to absorb bad debt, putting them at far greater risk of insolvency than their larger counterparts.

But these smaller firms are a vital part of the construction supply chain. The Government must ensure its Industrial Strategy actively prioritises SMEs, to unlock opportunities for them to thrive and be at less of a disadvantage than larger firms. Improving access to finance will also be a critical lever to give SMEs the boost they need to invest, innovate and grow. It will enable smaller firms to compete for the pipeline of new projects the Government says is set to boost the UK construction sector.”

The industry's view



Jeremy Gray
Head of External Affairs
Federation of Master Builders

“As the Federation of Master Builders, representing the backbone of Britain’s construction SMEs, we welcome the optimism and resilience shown by small builders across the country, with many expecting growth in the months ahead. It’s encouraging to see SMEs’ vital role in delivering local, high-quality projects being recognised, and we support efforts to open up more opportunities and partnerships for smaller firms.

However, the challenges facing SMEs remain significant and must not be overlooked. Rising material costs, bad debt, and increasing regulatory burdens are squeezing margins and putting many firms at risk. Access to finance is harder than ever, and the planning system continues to favour larger developers, making it difficult for SMEs to compete on a level playing field. Skills shortages and complex contract terms further add to the pressures.

If the Government is serious about building a diverse and thriving construction sector, it must prioritise targeted support for SMEs - improving access to finance, reforming planning, and investing in skills. Only then can small builders continue to drive local economies, train the next generation, and deliver the homes our communities need.”

Media enquiries

For media enquiries please contact: bfsteam@firstlightgroup.io

About Bibby Financial Services

Bibby Financial Services (BFS) is a leading independent financial services partner to over 8,500 SMEs worldwide, and a provider of specialist working capital to the UK construction sector.

Formed in 1982, BFS is part of the Bibby Line Group (BLG), a diverse and forward-looking family business delivering personal, responsive and flexible customer solutions for over 215 years.

Through our dedicated Construction Finance team and deep sector knowledge, we have supported the growth of thousands of construction businesses since 2004.

To find out more about BFS, visit: www.bibbyfinancialservices.com

Methodology

This study is based on research of 1,000 UK SME owners and decision makers across the manufacturing, construction, wholesale, transport and services sectors. A total of 246 construction firms were included in the survey. The research was conducted by independent specialists, Critical Research, throughout January 2025.

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